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C O N F I D E N T I A L SECTION 01 OF 03 LILONGWE 000650

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E.O. 12958: DECL: 12/02/2019
TAGS: ECON EINV PGOV MI
SUBJECT: MALAWI: FUEL CRISIS HIGHLIGHTS BINGU'S ECONOMIC
MISMANAGEMENT

REF: A. LILONGWE 647
¶B. LILONGWE 628
¶C. LILONGWE 594
¶D. LILONGWE 507

LILONGWE 00000650 001.5 OF 003

Classified By: Ambassador Peter W. Bodde for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: Although President Bingu wa Mutharika continues to enjoy acclaim in development circles for Malawi's strong economic growth in recent years, a series of bad decisions and policies is increasingly undermining the progress of the President's first term. This trend is evident in Malawi's overly rigid exchange rate, rejection of World Bank support to join the Southern African electrical grid, overspending on fertilizer and frivolous government procurement, and clumsy intervention in agricultural markets. Acute fuel shortages caused by a lack of foreign exchange have seriously impacted economic activity over the last month and may well continue months longer. Electricity blackouts are also likely to worsen over the next year or two. Threads of populism, capriciousness, and even xenophobia run through the President's public pronouncements, and have some local commentators for the first time drawing comparisons with Robert Mugabe. Rather than reassessing his policies, Bingu has so far preferred to blame the IMF, Asian traders, and other scapegoats for Malawi's problems. Many of his advisors know better, but are increasingly reluctant to challenge the President's views, even in private. END SUMMARY.

OUT OF CASH AND RUNNING ON EMPTY

¶2. (C) President Mutharika's aura of economic success has been dimmed in recent days by a serious and prolonged fuel shortage throughout the country. The shortages (ref A), the longest in the Malawi's recent history, have affected industrial production and construction projects as well as disrupting transport. Tension on the streets is palpable as drivers in urban areas scramble and jostle after rumors of fuel deliveries. The near exhaustion of Malawi's foreign exchange reserves is the root cause of the fuel crisis, and the forex shortage has itself been acting as a significant brake on the economy for several months (ref B).

"ECONOMIC ENGINEER" DRIVES TRAIN INTO DITCH

¶3. (C) There are multiple reasons for the steady decline in

Malawi's foreign exchange reserves over the last year, including a worsening in Malawi's terms of trade as a result of the global economic crisis. International prices for tobacco, Malawi's largest foreign exchange earner, are down, while prices for fuel have started to rise again. GOM policies and decisions also contributed heavily to the country's predicament. In an immediate sense, the President's insistence on fixing the value of the Kwacha to the dollar has reduced the Malawian economy's ability to adjust to worsening terms of trade and other imbalances. The GOM has also been slow to engage the IMF on a new program to get Malawi through the current rough patch, probably because Finance and Reserve Bank officials knew that the IMF would push for a flexible exchange rate that the President would consider unacceptable. The recent Fund mission to Malawi (ref B) made some progress on this front, but too little and too late to avert the current crisis. The local IMF resident representative sees little relief from forex woes before February, when the Fund and some budget support donors may make large disbursements to Malawi if the IMF board approves a new agreement.

OF MAIZE AND MERCEDES

¶4. (C) Other GOM procurement and policy decisions have also helped to drain Reserve Bank coffers. The President's lease/purchase of a corporate jet (ref C) attracted much public attention, but over-spending on imported fertilizer and a fleet of Mercedes for cabinet officials probably did more damage to the Bank's balance sheet. Bingu's heavy-handed meddling in tobacco auctions and cotton markets in recent months also hurt the performance of these sectors, which contribute to Malawi's foreign exchange earnings.

More broadly, the President's intense focus on boosting maize production has also generated large imbalances. The GOM used scarce hard currency to import large amounts of fertilizer to produce a commodity (maize) that is consumed domestically, thus generating no hard currency. To make matters worse, many newly prosperous farmers have sought to use their kwacha earnings to purchase cars, electronics and other imported consumer goods, placing even greater demands on forex. Now the resultant fuel shortages are interfering with transport of fertilizer and other inputs critical to next year's harvest.

LIGHTS OUT ON INTERCONNECTOR?

¶5. (C) While the President has talked a good game on growing and diversifying Malawi's exports, the GOM has done relatively little in practice as yet to resolve problems with infrastructure or attract investment. In fact, Bingu has taken some important steps in the wrong direction. He has voiced a series of public attacks on foreign traders, investors and donors, blaming them for many of the country's problems (ref. D). In another step backward, the President is reportedly considering rejecting once more a critical World Bank project to finance the construction of electrical transmission links to the Southern African Power Pool through Mozambique. This project would allow Malawi to both buy and sell power, reduce blackouts, refurbish existing hydropower plants and attract investment for new generation projects to meet the country's growing demand for electricity. The President has stubbornly insisted that the deal is not in Malawi's interest despite strong factual arguments from both external experts as well as his own officials. Some GOM officials have told us that they are still trying to turn Bingu around on this before the WB project expires at the end of the year. With no interconnector, the country faces the prospect of increasing power cuts and potentially the loss of some portions of the Millennium Challenge Corporation compact currently under development.

BLAME THE FOREIGNERS

¶6. (U) Following an all-too-familiar pattern, President Mutharika has blamed the International Monetary Fund (IMF) and the World Bank for the country's problems. "The IMF and World Bank have been forcing us to have a free market economy...but now all foreign business operators externalize forex to Asia and the Middle East," the President claimed in a radio address. Chancellor Kaferapanjira, CEO of the Malawi Confederation of Chambers of Commerce and Industry (MCCCI), disagreed, instead blaming government interference in the market. "Government is controlling market prices too much. There are no indications that the market is failing, therefore government must not interfere with it. The market should be left to decide the prices. Too much control of prices does not work," Kaferapinjira said.

ARCHITECT OF SUCCESS NOW OUT IN THE COLD

¶7. (C) Former Finance Minister Goodall Gondwe received much of the credit for Malawi's economic success during President Mutharika's first term, spear-heading efforts to balance the budget, tame inflation and re-establish cordial relations with development partners, including the IMF. In the President's new cabinet following the May 2009 election, however, Gondwe was demoted to Minister for Local Government. At the Ambassador's Thanksgiving gathering, Gondwe (protect) quietly remarked that "the President is making a lot of mistakes." He further confided that while at one time he had been able to temper the President's views and steer him in the right direction, he was now no longer able to do so. He noted that even the President's brother, Minister of Justice Peter Mutharika, finds it difficult to moderate the President's sometimes extreme public statements.

RIGHT BACK WHERE HE STARTED?

¶8. (C) In a sense, recent developments are bringing President Mutharika around full circle to where he started in 2004. He

took over for President Muluzi, his political godfather, when the country was in the grips of high inflation and cut off from foreign aid flows by exasperated donors. In his first years in office, Mutharika took tough economic decisions and rebuilt relationships with international partners. Malawi has enjoyed impressive economic growth and stability since then. Sadly, this success and legimate, overwhelming victory of the president and his party in May elections appear to have given Bingu the illusion of infallibility. While Malawi has not yet reached the tipping point, present trends could jeopardize much of the structural progress the country has achieved in recent years.
BODDE